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DAILY COVER

Trump's Tariffs: Coming To Your Medicine Cabinet Soon

The days of affordable prescription drugs —generics included — may soon come to an end thanks to President Trump's aggressive tariffs and the global trade war they are inciting.

By Alex Knapp, Forbes Staff. Alex Knapp is a Forbes senior editor covering healthcare and science.

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Published Apr 08, 2025, 06:30am EDT, Updated Apr 8, 2025, 10:58am EDT

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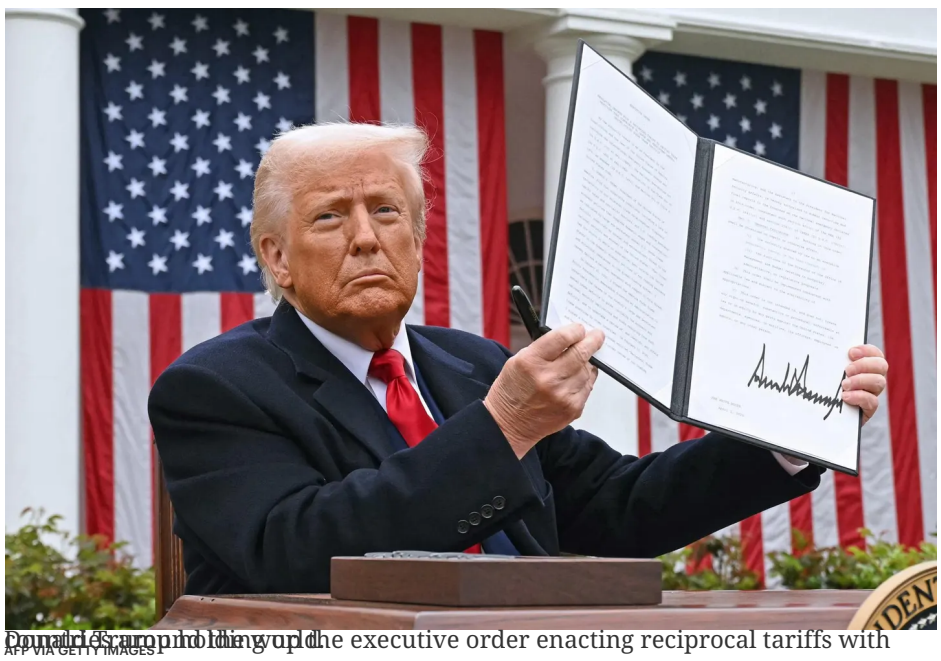


Donald Trump holding up the executive order enacting reciprocal tariffs with AFP VIA GETTY IMAGES

On average, Americans pay about twice what other countries do for prescription drugs. Thanks to President Trump's aggressive tariffs and the global trade war they are inciting, they might soon pay even more.

Last week, Trump made good on a core campaign promise to enact sweeping tariffs, slapping a baseline of 10% tax on imports from every country, with China, India and EU countries singled out for harsher rates, ranging from 20% to 34% (and Trump has threatened to add another 50% to China for enacting its own retaliatory tariff). Although pharmaceuticals are currently exempt, it's widely

retaliatory tariff). Although pharmaceuticals are currently exempt, it's widely expected that won't last. In his remarks announcing tariffs last week, Trump said, "The pharmaceutical companies are going to come roaring back. … because if they don't, they've got a big tax to pay," suggesting it's only a question of when and how hard pharmaceutical tariffs will hit.

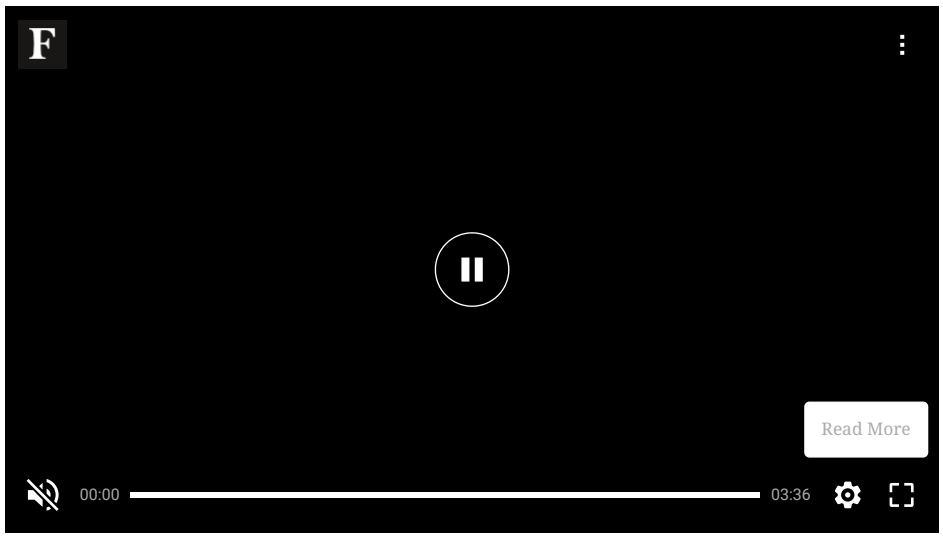
When they do, one of the biggest losers would likely be generic drug manufacturers and, since they account for about 90% of all prescriptions in the United States, a huge segment of Americans who rely on them. About 47% of all generics prescribed in the U.S. are made in India, which is currently facing a 26% tariff. Some, like common heart medications, cost less than a dollar a pill — a price that if tariffed might cause their manufacturers to reconsider the value proposition of making them. "Most of them are selling with low profit margins and some are operating at a loss," said Rajiv Leventhal, a healthcare analyst at Emarketer. "They could be forced to consider whether it's even worth it to be in the market." That could hurt consumers who rely on those low-cost alternatives

to brand-name drugs for everything from antibiotics like penicillin to blood pressure medication.

Mark Cuban, whose Cost-Plus Drug Company manufactures and sells generic drugs, such as penicillin imported from Portugal, told *Forbes* that any costs elevated by tariffs will absolutely be passed through to patients. "With only a 15 [percent] markup, we can't absorb any additional costs," he said. For some generics, costs could become excruciatingly high. ING analyst Diederik Stadig estimated that a 24-week course of generic cancer medication could be run as high as $10,000 under a 25% tariff.

Name-brand medications are likely to be hard hit as well. Weight loss medication Wegovy, cancer immunotherapy drug Keytruda and HIV drug Norvir are manufactured in European Union countries, which currently face a 20% tariff. For a patient whose insurance doesn't cover Wegovy, that could mean an extra $100 a month if Novo Nordisk passed on the whole tariff cost.

And a recent analysis published in the *Journal of the American Medical Association* suggested that tariffs on Canadian pharmaceuticals alone would increase annual drug costs in the U.S. by $750 million a year. Even if a drug is manufactured in the United States it could still be impacted by tariffs. Nearly 90% of American biotech companies rely on imported components for a significant portion of their FDA products, according to a survey from trade industry group BIO. Cancer drug Imbruvia, for example, imports a key ingredient from China–which also produces about 72% of the pharmaceutical ingredients imported to the U.S. That's unlikely to change any time soon because there's simply not enough domestic manufacturing capacity to meet demand. Nearly half of the responding biotechs said that finding alternative suppliers could take more than two years.



For American companies manufacturing drugs in the states, tariffs are still a concern because the active ingredient of a medication is what matters under tariff law. That means a drug like the blood thinner Eliquis is considered to be entirely imported because its key ingredient is made in Switzerland, even though final manufacture happens in the United States

This has sparked a scramble from larger pharmaceutical companies, who are

both working to expand their manufacturing capacity in the United States (such as Johnson & Johnson's recently announced $55 billion investment) and to outsource production to contract manufacturers located in the United States. That might change how investors allocate their dollars to startups, said Sarah Choi, a partner at Wing VC, who foresees "a rise in popularity for VCs to back companies that are sort of next generation manufacturing plays that are located here in the United States."

Companies like Johnson & Johnson who are bringing manufacturing home stand to gain relative to their peers, but it doesn't mean they'll escape unscathed. China slapped a retaliatory 34% tariff on U.S. goods last week that, if that's applied to drugs, "will hurt the $20 [billion in] exports in chemicals that the U.S. currently sells to China, much of it health related such as packaged medicines," Jack Zhang, director of the Trade War Lab at the University of Kansas, told *Forbes*.

One consequence of a trade war, noted Orr Inbar, CEO of consultancy service Quanthealth, is that if it snowballs, some larger pharma companies may find themselves building multiple manufacturing facilities across the globe to avoid tariffs. While that might help mitigate their impact, it would still raise costs. "The more sites you have, the more overhead and management costs you have," he said. Which would ultimately be passed on to consumers.

Beyond all this, tariffs will likely have another chilling effect: on innovation. In the fraught economic environment Trump's tariffs have created, it's going to be a lot harder for startups and smaller companies to bring new breakthroughs to market, making it easier for incumbents to dominate the marketplace, said Kaz Helal, an analyst at Pitchbook. "Big Pharma will just get bigger."

Sara Choi, a partner at VC firm Wing Ventures, echoed that sentiment. She told *Forbes* tariffs will likely force smaller companies working on new drugs to seek out capital via collaborative licensing deals with large pharmaceutical companies rather than investors.

One consequence of this, she said, is that biotech startup exits are much more likely to occur via acquisition than IPO, making for a less competitive environment in the long-term. "I see pharma asking to take a look at our companies at a much earlier stage, if only because they want first dibs before another company sees assets," she said, adding that trend will likely be exacerbated by a high tariff environment.

This too is likely to slow innovation, and narrow focus. Choi said she suspects tariffs will encourage companies to focus more of their resources on illnesses that affect larger numbers of people and therefore have larger revenue potential. That might diminish investment in R&D for new treatments for rare or emerging diseases.

"I don't want to be a doomsayer here," she said. "But I do think it's going to continue to be really tough for these startups to get their footing."

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By**Alex Knapp**. Alex Knapp is a senior editor covering healthcare, science, and cutting edge technology who joined Forbes in 2011. He's written dozens of profiles of entrepreneurs across a variety of fields and done deep dives into technological trends from superconductors to space travel to pharmaceuticals. He also co-authors the InnovationRX newsletter and edits the Under 30 lists for Science and Healthcare in both North America and Europe. He has a B.S. in biochemistry from WPI and a J.D. from the University of Kansas School of Law. Follow him across social media sites at @thealexknapp. Email him at aknapp@forbes.com

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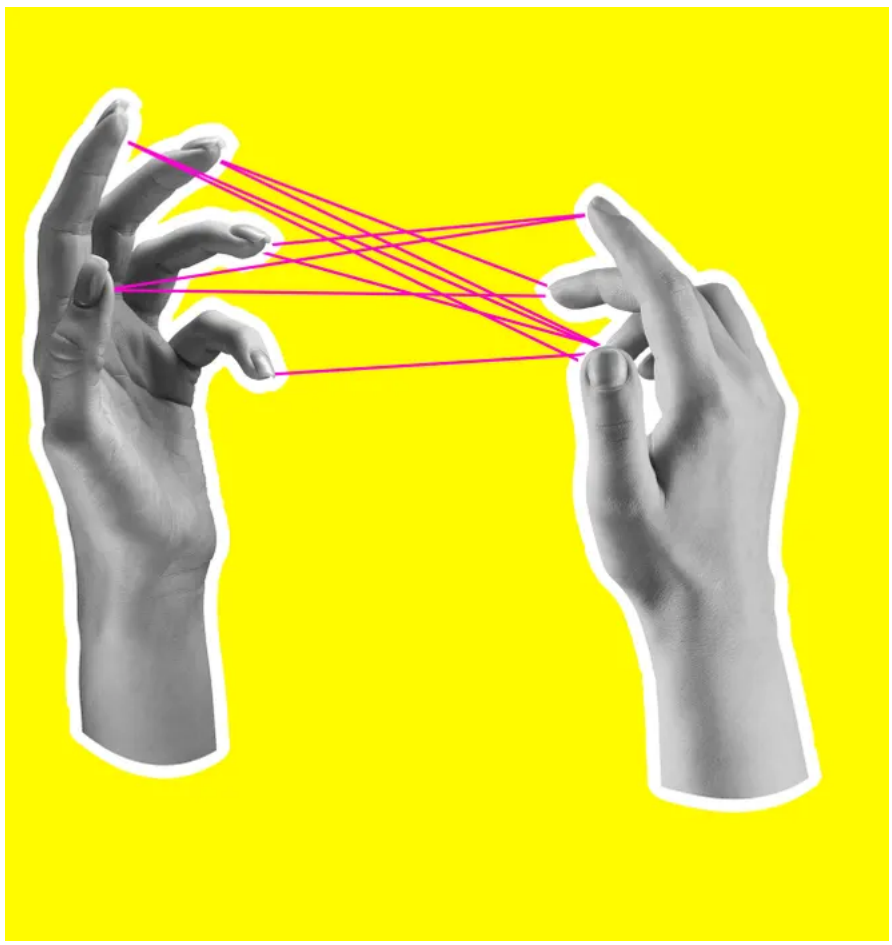

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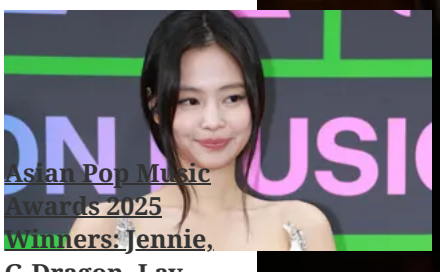

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